

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Village of Beverly Hills</u>	County Oakland
Audit Date June 30, 2003	Opinion Date September 19, 2003	Date Accountant Report Submitted To State: October 16, 2003	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State Michigan	ZIP 48034
Accountant Signature <i>Plante & Moran, PLLC</i>			

Village of Beverly Hills Oakland County, Michigan

**Financial Report
with Supplementary Information
June 30, 2003**

Village of Beverly Hills, Michigan

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Village of Beverly Hills, Michigan

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Independent Auditor's Report

To the Village Council
Village of Beverly Hills, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Beverly Hills as of and for the year ended June 30, 2003, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Beverly Hills' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Beverly Hills as of June 30, 2003 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Beverly Hills' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



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To the Village Council
Village of Beverly Hills, Michigan

As described in Note 13, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2002. In adopting this statement, the financial statements now include a Management's Discussion and Analysis, government-wide full accrual financial statements, and reorganized fund-based statements.

Plante & Moran, PLLC

September 19, 2003

Village of Beverly Hills, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Village of Beverly Hills' (the "Village") financial performance provides an overview of the Village's financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the Village's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2003:

- State-shared Revenue - The Village realized a combined 12 percent loss in constitutional and statutory State revenue sharing as a result of a change in the 2000 census data and Executive Orders promulgated by Governors Engler and Granholm. The loss in State revenue sharing neutralized any gain in property tax revenues.
- Water Main Project - In 2000, the Village conducted a study on the condition and age of its water mains. It was determined that the system required \$2.8 million in capital improvements in the short term. Included as part of the fiscal year 2002/2003 budget was a \$500,000 allocation for water main repairs, in keeping with the Village's tradition to "pay as you go". A staff review of cash flow and timing of the project found that the Village might be better served by issuing debt for the project.
- Total net assets related to the Village's governmental activities increased by approximately \$2,032,000. However, the unrestricted portion of net assets decreased by approximately \$293,000.
- The Village is in the process of completing the Coryell/Hummel SAD. The Village issued a \$500,000 Special Assessment Limited Tax Bond to finance the homeowners' portion of the SAD.
- Finally, the Village implemented the provisions of GASB 34. This is explained in Note 13 - Accounting Change.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. The longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and tells whether the taxpayers have funded the full cost of providing services.

Village of Beverly Hills, Michigan

Management's Discussion and Analysis (Continued)

The Fund financial statements present a short-term view; they tell us how taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

The Village as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current assets	\$ 7,483	\$ 6,622	\$ 2,270	\$ 2,068	\$ 9,753	\$ 8,690
Noncurrent assets	8,286	6,757	13,073	13,257	21,359	20,014
Total assets	15,769	13,379	15,343	15,325	31,112	28,704
Current liabilities	1,239	1,043	693	856	1,932	1,899
Long-term liabilities	466	304	5,522	5,886	5,988	6,190
Total liabilities	1,705	1,347	6,215	6,742	7,920	8,089
Net assets:						
Invested in capital assets -						
Net of related debt	7,527	6,453	7,188	7,371	14,715	13,824
Restricted	3,543	2,291	-	-	3,543	2,291
Unrestricted	2,994	3,288	1,940	1,212	4,934	4,500
Total net assets	<u>\$ 14,064</u>	<u>\$ 12,032</u>	<u>\$ 9,128</u>	<u>\$ 8,583</u>	<u>\$ 23,192</u>	<u>\$ 20,615</u>

The Village's combined net assets increased 12.5 percent from a year ago - increasing from \$20,615,000 to \$23,192,000.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - decreased by \$293,000 for the governmental activities. This represents a decrease of approximately 8.9 percent. The current level of unrestricted net assets for our governmental activities stands at \$2,995,487, or about 44.6 percent of expenditures.

The restricted portion of net assets increased by approximately \$1,252,000 as the result of dedicated infrastructure millage collections in excess of amounts spent for infrastructure improvements, and the recognition of special assessments (which are required to be set aside when collected and used to make early calls on the special assessment bond).

Village of Beverly Hills, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year (in thousands of dollars). A comparison to the prior year is not available, since this is the Village's initial year of adopting GASB 34.

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 768	\$ 2,965	\$ 3,733
Operating grants and contributions	808	-	808
Capital grants and contributions	-	178	178
General revenue:			
Property taxes	5,765	411	6,176
State-shared revenue	966	-	966
Special assessment	245	-	245
Unrestricted investment earnings	86	5	91
Miscellaneous	97	-	97
Transfers and other revenue	9	(9)	-
Total revenue	8,744	3,550	12,294
Program Expenses			
General government	943	-	943
Public safety	3,165	-	3,165
Public works	2,077	-	2,077
Community and economic development	62	-	62
Library	465	-	465
Water and sewer	-	3,005	3,005
Total program expenses	6,712	3,005	9,717
Change in Net Assets	\$ 2,032	\$ 545	\$ 2,577

Governmental Activities

Program revenues represent those revenues that reduce the cost of programs to the general taxpayer. For example, public works (which consists of the cost of roads and public services) costs approximately \$2,077,000 (including depreciation and other expense accruals); however, there are approximately \$1,341,000 of revenues that reduce the cost of these programs to the Village (primarily State gas and weight taxes and State trunkline maintenance reimbursements). Therefore, the net cost to the Village's taxpayer is approximately \$736,000.

Village of Beverly Hills, Michigan

Management's Discussion and Analysis (Continued)

The total cost of governmental activities was approximately \$6,712,000; after considering the related program revenues, the net cost to the taxpayer was approximately \$5,135,000. This was financed by general revenues of approximately \$7,168,000, for an excess of approximately \$2,032,000. The following items contributed to this increase in net assets:

- The dedicated infrastructure millage of approximately \$871,000 (the taxes levied represent current revenue, but the construction of the infrastructure represents an expense of future periods, as it is depreciated);
- Approximately \$500,000 of special assessments were earned this year (which represents current revenue for infrastructure that will be recognized as an expense of future periods, as it is depreciated).
- During the year, the Village received a return of equity from SOCCRA.

On the other hand, State-shared revenue, interest income, and revenue from franchise fees decreased during the year, which is causing short-term financial difficulties for most local units of government in Michigan.

Increases in health care premiums continue to be the largest increase in the Village's expense. To offset this increase, the Village administration continues to amend health insurance coverage through its copays. The current contracts include a \$10/\$40 drug card, which has changed from a \$10/\$20 drug card.

Business-type Activities

The Village's business-type activities consist of the Water and Sewer Fund. Water and Sewer services are provided to residents through contracts or consortiums with the Detroit Water and Sewerage Department. Our residents' water usage increased 6.75 percent from the previous fiscal year. In addition, the Village's water loss dropped from 10.51 percent to 4 percent. These two factors, coupled with a rate increase implemented during the year, resulted in \$195,128 of operating income.

The Village's Funds

The analysis of the Village's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds - not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as special tax millages. The Village's major funds include the General Fund, Major Streets, Local Streets, Coryell/Hummel SAD, and Capital Projects Infrastructure Fund.

The General Fund pays for most of the Village's governmental services. The Public Safety Department represents the largest cost group, which incurred expenses of approximately \$3,521,000 in fiscal year 2002-2003.

Village of Beverly Hills, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the Village amended the budget to take into account events during the year. The most significant change was to increase capital spending for the Public Safety parking lot paving and fund personnel costs funds (e.g., sick leave fund, vacation fund). Village departments overall stayed below budget, resulting in total expenditures \$102,548 below budget. This, coupled with increased revenue from SOCRRA, allowed the General Fund's fund balance to decrease by \$131,780 instead of \$282,000 that was appropriated.

Capital Asset and Debt Administration

At June 30, 2003, the Village had \$21,100,087 invested in a broad range of capital assets, including buildings, furniture, equipment, roads and bridges, and water and sewer mains (see Note 5 for detail). During the current year, the Village added approximately \$1,998,000 of additional capital assets. The most significant additions related to new roads and bridges of approximately \$1,370,000 that were funded by a combination of new special assessment bonds, dedicated infrastructure millage, and State gas and weight tax revenues. The special assessment bonds are to be repaid through collections of a special assessment on the benefited property owners. The terms of the bond call for annual early calls on the bond each October to the extent of any early payoffs on the special assessment. This mechanism should eliminate the Village's risk of having to invest early payoff proceeds at an investment rate of return equivalent to the bond's interest rate.

Economic Factors and Next Year's Budgets and Rates

The Village's budget for next year is 2.35 percent less than the proposed budget for 2002/2003. Property taxes are expected to increase 1.78 percent. State revenue sharing is projected to decrease by \$39,522 or 4 percent. In addition, the contribution from fund balance is projected to decrease from \$131,780 to \$49,797.

Water and sewer rates are also expected to increase. Water rates are budgeted to increase by 12.62 percent and sewer rates by 8.38 percent.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, and customers with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

Village of Beverly Hills, Michigan

Statement of Net Assets June 30, 2003

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments (Note 3)	\$ 6,358,268	\$ 1,573,691	\$ 7,931,959
Receivables - Net (Note 4)	954,422	674,810	1,629,232
Internal balances (Note 6)	(12,000)	12,000	-
Inventories	-	9,602	9,602
Prepaid costs and other assets	182,256	-	182,256
Restricted assets (Note 8)	258,937	-	258,937
Capital assets - Net (Note 5)	8,026,721	13,073,366	21,100,087
Total assets	15,768,604	15,343,469	31,112,073
Liabilities			
Accounts payable	359,228	336,445	695,673
Accrued and other liabilities	170,200	13,276	183,476
Liabilities to be paid from restricted assets	258,937	-	258,937
Due to other governmental units	78,673	-	78,673
Noncurrent liabilities (Note 7):			
Due within one year	371,560	343,062	714,622
Due in more than one year	465,662	5,522,902	5,988,564
Total liabilities	1,704,260	6,215,685	7,919,945
Net Assets			
Invested in capital assets - Net of related debt	7,526,721	7,187,890	14,714,611
Restricted:			
Streets and highways	1,332,716	-	1,332,716
Capital projects	2,210,852	-	2,210,852
Unrestricted	2,994,055	1,939,894	4,933,949
Total net assets	<u>\$ 14,064,344</u>	<u>\$ 9,127,784</u>	<u>\$ 23,192,128</u>

Village of Beverly Hills, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government - Governmental activities:				
General government	\$ 942,884	\$ 90,849	\$ 18,434	\$ -
Public safety	3,164,890	117,889	3,016	-
Public works	2,076,854	555,030	786,198	-
Community and economic development	61,902	5,124	-	-
Library	465,156	-	-	-
Total governmental activities	6,711,686	768,892	807,648	-
Business-type activities - Water and sewer	3,005,305	2,965,107	-	178,043
Total primary government - Governmental activities	<u>\$ 9,716,991</u>	<u>\$ 3,733,999</u>	<u>\$ 807,648</u>	178,043

General revenues:

Property taxes and related fees
State-shared revenues
Special assessments
Unrestricted investment earnings
Miscellaneous
Transfers

Total general revenues and transfers

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities
Year Ended June 30, 2003

Net (Expense) Revenue and Changes in Net		
Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (833,601)	\$ -	\$ (833,601)
(3,043,985)	-	(3,043,985)
(735,626)	-	(735,626)
(56,778)	-	(56,778)
(465,156)	-	(465,156)
(5,135,146)	-	(5,135,146)
-	137,845	137,845
(5,135,146)	137,845	(4,997,301)
5,764,859	410,621	6,175,480
966,032	-	966,032
244,970	-	244,970
85,956	4,996	90,952
96,776	-	96,776
9,000	(9,000)	-
7,167,593	406,617	7,574,210
2,032,447	544,462	2,576,909
12,031,897	8,583,322	20,615,219
\$ 14,064,344	\$ 9,127,784	\$ 23,192,128

Village of Beverly Hills, Michigan

Governmental Funds Balance Sheet June 30, 2003

	General	Major Streets	Local Streets	Coryell/ Hummel SAD	Capital Projects Infrastructure	Other Non- major Governmental Funds	Total Governmental Funds
Assets							
Cash and investments	\$ 1,610,944	\$ 608,658	\$ 904,409	\$ 10,622	\$ 1,661,530	\$ 1,562,105	\$ 6,358,268
Receivables - Net	214,546	37,684	18,629	493,170	3,087	19,900	787,016
Prepaid costs and other assets	90,323	-	-	-	-	-	90,323
Restricted assets	-	-	-	258,937	-	-	258,937
Total assets	<u>\$ 1,915,813</u>	<u>\$ 646,342</u>	<u>\$ 923,038</u>	<u>\$ 762,729</u>	<u>\$ 1,664,617</u>	<u>\$ 1,582,005</u>	<u>\$ 7,494,544</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 95,445	\$ 43,568	\$ 149,241	\$ 48,939	\$ 17,914	\$ 4,119	\$ 359,226
Accrued and other liabilities	89,885	31,855	-	-	-	-	121,740
Due to other funds	-	5,000	7,000	-	-	-	12,000
Liabilities to be paid from restricted assets	-	-	-	258,937	-	-	258,937
Due to other governmental units	78,673	-	-	-	-	-	78,673
Deferred revenue	-	-	-	258,187	-	19,900	278,087
Other liabilities	48,460	-	-	-	-	-	48,460
Total liabilities	312,463	80,423	156,241	566,063	17,914	24,019	1,157,123
Fund Balances							
Reserved for capital projects	-	-	-	196,666	1,646,703	367,483	2,210,852
Unreserved - Reported in:							
General Fund	1,603,350	-	-	-	-	-	1,603,350
Special Revenue Funds	-	565,919	766,797	-	-	1,190,503	2,523,219
Total fund balances	<u>1,603,350</u>	<u>565,919</u>	<u>766,797</u>	<u>196,666</u>	<u>1,646,703</u>	<u>1,557,986</u>	<u>6,337,421</u>
Total liabilities and fund balances	<u>\$ 1,915,813</u>	<u>\$ 646,342</u>	<u>\$ 923,038</u>	<u>\$ 762,729</u>	<u>\$ 1,664,617</u>	<u>\$ 1,582,005</u>	<u>\$ 7,494,544</u>

Village of Beverly Hills, Michigan

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2003

Fund Balance - Total Governmental Funds \$ 6,337,421

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	8,026,721
The funds defer recognition of revenue on any amounts not collected within two months of the end of the year	278,087
State-shared revenue receivable is not reported in the funds unless it is collected soon after the end of the year	167,406
The funds do not report bond indebtedness as a liability until it comes due for payment	(500,000)
Employee-compensated absences are not due and payable in the current period and are not reported in the funds	(337,222)
Amounts on deposit with the Insurance Authority (MMRMA) are not reported as fund assets	<u>91,931</u>

Net Assets - Governmental Activities \$ 14,064,344

Village of Beverly Hills, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2003

	General	Major Streets	Local Streets	Coryell/ Hummel SAD	Capital Projects Infrastructure	Other Governmental Funds	Total Governmental Funds
Revenue							
Property taxes and related fees	\$ 4,299,147	\$ -	\$ 480,973	\$ -	\$ 870,644	\$ 114,095	\$ 5,764,859
Licenses and permits	145,458	-	-	-	-	-	145,458
Federal grants	38,096	-	-	-	-	41,092	79,188
State-shared revenues and grants	952,017	419,940	203,756	147,795	-	276,142	1,999,650
Special assessment	-	-	-	244,970	-	-	244,970
Charges for services	236,881	-	-	-	-	347,078	583,959
Fines and forfeitures	55,558	-	-	-	-	2,954	58,512
Interest and rentals	49,160	8,230	8,912	3,227	16,403	17,229	103,161
Other	145,030	-	-	625	-	3,698	149,353
Total revenue	5,921,347	428,170	693,641	396,617	887,047	802,288	9,129,110
Expenditures							
Current:							
General government	799,664	-	-	-	-	272,641	1,072,305
Public safety	3,520,631	-	-	-	-	-	3,520,631
Public works	900,339	423,413	829,845	699,951	-	-	2,853,548
Library	465,156	-	-	-	-	-	465,156
Capital outlay	76,585	-	-	-	178,483	259,314	514,382
Total expenditures	5,762,375	423,413	829,845	699,951	178,483	531,955	8,426,022
Excess of Revenue Over (Under) Expenditures	158,972	4,757	(136,204)	(303,334)	708,564	270,333	703,088
Other Financing Sources (Uses)							
Transfers in	-	-	200,000	-	-	154,952	354,952
Transfers out	(290,752)	-	-	-	-	(55,200)	(345,952)
Issuance of debt	-	-	-	500,000	-	-	500,000
Total other financing sources (uses)	(290,752)	-	200,000	500,000	-	99,752	509,000
Net Change in Fund Balances	(131,780)	4,757	63,796	196,666	708,564	370,085	1,212,088
Fund Balances - Beginning of year	1,735,130	561,162	703,001	-	938,139	1,187,901	5,125,333
Fund Balances - End of year	\$ 1,603,350	\$ 565,919	\$ 766,797	\$ 196,666	\$ 1,646,703	\$ 1,557,986	\$ 6,337,421

Village of Beverly Hills, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds \$ 1,212,088

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation 1,269,628

The funds report revenue as it is collected or available, but the
statement of activities reported it in prior years when earned (179,100)

Revenue reported in the statement of activities that does not
provide current financial resources and is not reported as
revenue in the governmental funds (GASB No. 33) 263,149

Bond proceeds are not reported as financing sources on the
statement of activities (500,000)

Increase in accumulated employee sick and vacation pay,
as well as estimated general liability claims, are recorded
when earned in the statement of activities (33,318)

Change in Net Assets of Governmental Activities \$ 2,032,447

Village of Beverly Hills, Michigan

Enterprise Fund - Water and Sewer Statement of Net Assets June 30, 2003

Assets

Current assets:

Cash and cash equivalents	\$ 1,573,691
Receivables - Net	674,810
Due from other funds	12,000
Inventories	<u>9,602</u>

Total current assets 2,270,103

Noncurrent assets - Capital assets 13,073,366

Total assets 15,343,469

Liabilities

Current liabilities:

Accounts payable	336,445
Accrued and other liabilities	13,276
Current portion of long-term debt	<u>343,062</u>

Total current liabilities 692,783

Noncurrent liabilities - Long-term debt - Net of current portion 5,522,902

Total liabilities 6,215,685

Net Assets

Investment in capital assets - Net of related debt	7,187,890
Unrestricted	<u>1,939,894</u>

Total net assets \$ 9,127,784

Village of Beverly Hills, Michigan

Enterprise Fund - Water and Sewer Statement of Revenue, Expenditures, and Changes in Net Assets Year Ended June 30, 2003

Operating Revenue

Sale of water	\$ 891,434
Sewage disposal charges	1,895,176
Interest and penalty charges	75,095
Meter charge	99,502
Rental income and other	<u>3,900</u>

Total operating revenue 2,965,107

Operating Expenses

Cost of water produced/purchased	525,174
Cost of sewage treatment	889,475
Administration charge	140,000
Repairs and maintenance	570,698
Depreciation	292,700
Other expenses	<u>351,932</u>

Total operating expenses 2,769,979

Operating Income 195,128

Nonoperating Revenue (Expense)

Investment income	4,996
Property taxes	410,621
Interest expense	<u>(235,326)</u>

Total nonoperating revenue 180,291

Net Income - Before transfers and contributions 375,419

Transfers to Other Funds (9,000)

Capital Contributions - Lines constructed by Capital Projects Fund 178,043

Increase in Net Assets 544,462

Net Assets - Beginning of year 8,583,322

Net Assets - End of year \$ 9,127,784

Village of Beverly Hills, Michigan

Enterprise Funds - Water and Sewer Statement of Cash Flows Year Ended June 30, 2003

Cash Flows from Operating Activities

Receipts from customers	\$ 2,877,653
Payments to suppliers	(1,983,478)
Internal activity - Payments to other funds	(140,000)
Other payments	<u>(350,175)</u>

Net cash provided by operating activities 404,000

Cash Flows from Capital and Related Financing Activities

Purchase of capital assets	(10,566)
Proceeds from property tax levy	410,621
Principal and interest paid on capital debt	<u>(529,562)</u>

Net cash used in capital and related financing activities (129,507)

Cash Flows from Noncapital Financing Activities - Transfers out (9,000)

Cash Flows from Investing Activities - Interest received on investments 4,996

Net Increase in Cash and Cash Equivalents 270,489

Cash and Cash Equivalents - Beginning of year 1,303,202

Cash and Cash Equivalents - End of year \$ 1,573,691

Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 195,128
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	292,700
Changes in assets and liabilities:	
Receivables	(87,454)
Other assets	600
Accounts payable	1,869
Accrued and other liabilities	<u>1,157</u>

Net cash provided by operating activities \$ 404,000

Noncash Capital and Related Financing Activities - During the current year, \$178,043 of sewer line additions were funded by a Capital Projects Fund. The sewer line additions were recorded as a fixed asset addition within the Enterprise Fund.

Village of Beverly Hills, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2003

	Pension and Other Employee Benefits	Agency Fund
Assets		
Cash and cash equivalents	\$ -	\$ 72
Investments in mutual funds	12,341,776	-
Accrued interest receivable	20,748	-
Total assets	12,362,524	72
Liabilities - Accrued and other liabilities	-	72
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 12,362,524</u>	<u>\$ -</u>

Village of Beverly Hills, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2003

	Pension and Other Employee Benefits
Additions - Investment income	
Interest and dividends	\$ 277,152
Net decrease in fair value of investments	<u>(54,114)</u>
Net investment income	223,038
Deductions	
Benefit payments	(543,055)
Administrative expenses	<u>46,133</u>
Total deductions	<u>(496,922)</u>
Net Decrease	(273,884)
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>12,636,408</u>
End of year	<u>\$ 12,362,524</u>

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2003

Note I - Summary of Significant Accounting Policies

The accounting policies of the Village of Beverly Hills (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Beverly Hills:

Reporting Entity

The Village of Beverly Hills is governed by an elected seven-member council. There are no component units for which the Village is considered to be financially accountable.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the Enterprise Fund are reported as separate columns in the fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within two months of the end of the current fiscal period (through August 31). Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, State-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Village.

The Village reports the following major governmental funds:

- The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Streets Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on major streets.
- The Local Streets Fund accounts for the resources of State gas and weight tax revenue that are restricted for use on local streets.
- The Capital Projects - Special Assessment District Fund accounts for the special assessment taxes collected for specific construction projects.
- The Capital Projects - Infrastructure Millage Fund accounts for the resources of property taxes collected for construction of the Acacia Interceptor.

Note I - Summary of Significant Accounting Policies (Continued)

The Village reports one proprietary fund. The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the Village reports the following fund types:

- The Pension and Other Employee Benefits Fund accounts for the activities of the police and fire employees retirement system, which accumulates resources for pension benefit payments to qualified police and fire employees.
- The Agency Fund accounts for assets held on behalf of third parties.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water and sewer function and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2003

Note I - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are considered to be fully collectible.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The special assessment bond ordinance requires the proceeds of the bond issue to be segregated from other funds of the Village. This account is being used to construct the project. The balance of this account, which represents unspent bond proceeds plus interest earned, has been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements other than buildings	50 years
Furniture and equipment	5-10 years
Vehicles	5 years
Infrastructure (excludes water mains and sewers)	10-50 years
Water mains and sewers	50 years
Meters	20 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the Village's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Village does not have a policy to pay any amounts when employees separate from service with the Village. All vacation pay is accrued when incurred in the government-wide fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Property Taxes - The Village's property tax is levied on each July 1 on the taxable valuation of the property (as defined by State statutes) located in the Village as of the preceding July 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

The Village's ad valorem tax is levied on July 1, 2002 and recognized as revenue for the June 30, 2003 budget year. The Village's property taxes were levied in the following manner:

2002 taxable valuation		<u>\$ 475,631,014</u>
	Mills Levied	Revenues Generated
Operating	8.9914	\$ 4,276,589
Operating - Local Street Fund	1.0000	475,631
Debt service	0.8634	410,660
Dedicated (infrastructure)	1.8304	870,595
Park	0.2400	114,151
Total	<u>12.9252</u>	<u>\$ 6,147,626</u>

These amounts are recognized in the respective General, Capital Projects, and Enterprise Funds financial statements as taxes receivable or tax revenue. Governmental funds recognize tax revenue in the year it is budgeted, to the extent it is collected within 60 days. Personal property taxes that are still unpaid as of June 30, 2003 will be recognized as revenue in the future as they are collected.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared by the Village management and adopted by the Village Council; subsequent amendments are approved by the Village Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2003 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles, except that operating transfers have been included in the revenue and expenditures categories, rather than as "other financing sources."

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2003

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget process begins in January when each department head calculates their appropriation request. This is due by the first Monday in March. The budget is submitted to the Village Council at the first meeting in April. During the next month, the Village Council reviews the budget and considers any changes. After a public hearing, the final budget is adopted by resolution no later than the second Monday in May.

The budget document presents information by fund, function, department, and line items. The level of budgetary control adopted by the Village Council is at the department level. If any department exceeds budget appropriations, the Village Council may, by resolution, amend the department's appropriation.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Village did not have significant expenditure budget variances.

Construction Code Fees - The Village oversees building construction, in accordance with the State's construction code act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2002	\$	(68,473)
Current year building permit revenue		149,166
Related expenses:		
Direct costs	\$	204,073
Estimated indirect costs		<u>9,506</u>
Less total construction code expenses		<u>(213,579)</u>
Cumulative shortfall at June 30, 2003	\$	<u>(132,886)</u>

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2003

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Village has designated eight banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in the instruments approved by the State statutory authority as listed above.

The Village of Beverly Hills' deposits and investment policies are in accordance with statutory authority. At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Fund	Total Primary Government
Cash and cash equivalents	\$ 1,957,973	\$ 594,327	\$ 72	\$ 2,552,372
Investments	4,400,295	979,364	12,341,776	17,721,435
Restricted assets	258,937	-	-	258,937
Total	<u>\$ 6,617,205</u>	<u>\$ 1,573,691</u>	<u>\$ 12,341,848</u>	<u>\$ 20,532,744</u>

The breakdown between deposits and investments for Governmental Accounting Standards Board Statement No. 3 is as follows:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 3,562,263
Investments in bank investment pools, interlocal agreement pool, and mutual funds	16,969,881
Petty cash or cash on hand	600
Total	<u>\$ 20,532,744</u>

The bank balance of the Village's deposits is \$3,727,549, of which approximately \$1,000,000 is covered by federal depository insurance.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2003

Note 3 - Deposits and Investments (Continued)

The Village's investments during the year consisted solely of bank investment pools, an interlocal agreement investment pool, and mutual funds. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares. Investments are normally categorized to give an indication of the level of risk assumed by the Village; however, these funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Village believes that the investments in these funds comply with the investment authority noted above.

Note 4 - Receivables

Receivables as of year end for the Village's individual major funds are as follows:

	General Fund	Major Streets Fund	Local Streets Fund	Special Assessment District	Dedicated Millage	Nonmajor and Other Funds	Total
Receivables:							
Taxes	\$ 11,587	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,587
Special assessment	-	-	-	493,169	-	-	493,169
Intergovernmental	367,288	37,187	18,145	-	-	19,900	442,520
Interest and other	3,078	497	484	-	3,087	-	7,146
Total receivables	<u>\$ 381,953</u>	<u>\$ 37,684</u>	<u>\$ 18,629</u>	<u>\$ 493,169</u>	<u>\$ 3,087</u>	<u>\$ 19,900</u>	<u>\$ 954,422</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable
Special assessments	\$ 258,187
Grant reimbursements not available in the current period	<u>19,900</u>
Total	<u>\$ 278,087</u>

There was no unearned deferred revenue as of June 30, 2003.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2003

Note 5 - Capital Assets

Capital asset activity of the Village's governmental and business-type activities was as follows:

	Balance July 1, 2002	Additions	Disposals and Adjustments	Balance June 30, 2003
Governmental Activities				
Capital assets not being depreciated - Land	\$ 209,937	\$ -	\$ -	\$ 209,937
Capital assets being depreciated:				
Buildings	2,257,094	-	396	2,256,698
Improvements other than buildings	493,313	215,376	160	708,529
Infrastructure (excludes water mains and sewers)	5,496,855	1,370,388	-	6,867,243
Furniture and equipment	1,918,378	109,754	158,481	1,869,651
Subtotal	10,165,640	1,695,518	159,037	11,702,121
Accumulated depreciation:				
Buildings	732,597	44,433	396	776,634
Improvements other than buildings	36,418	32,768	160	69,026
Infrastructure (excludes water mains and sewers)	1,649,711	220,481	-	1,870,192
Furniture and equipment	1,199,758	128,208	158,481	1,169,485
Subtotal	3,618,484	425,890	159,037	3,885,337
Net capital assets being depreciated	6,547,156	1,269,628	-	7,816,784
Net capital assets	<u>\$ 6,757,093</u>	<u>\$ 1,269,628</u>	<u>\$ -</u>	<u>\$ 8,026,721</u>
Business-type Activities				
Capital assets not being depreciated -				
Construction in progress	\$ 972,140	\$ 178,043	\$ -	\$ 1,150,183
Capital assets being depreciated:				
Water mains	2,696,626	-	-	2,696,626
Sanitary sewers	11,811,536	-	79,917	11,731,619
Meters	493,512	10,566	-	504,078
Service buildings	42,163	-	-	42,163
Motor vehicles	83,552	-	-	83,552
Furniture and equipment	139,104	-	-	139,104
Subtotal	15,266,493	10,566	79,917	15,197,142
Accumulated depreciation:				
Water mains	421,462	26,968	-	448,430
Sanitary sewers	1,964,728	246,052	-	2,210,780
Meters	354,777	12,440	-	367,217
Service buildings	42,163	-	-	42,163
Motor vehicles	62,042	4,376	-	66,418
Furniture and equipment	136,087	2,864	-	138,951
Subtotal	2,981,259	292,700	-	3,273,959
Net capital assets being depreciated	12,285,234	(282,134)	79,917	11,923,183
Net capital assets	<u>\$ 13,257,374</u>	<u>\$ (104,091)</u>	<u>\$ 79,917</u>	<u>\$ 13,073,366</u>

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2003

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 37,502
Public safety	133,887
Public works	<u>254,501</u>

Total governmental activities	<u>\$ 425,890</u>
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Business-type activities - Water and Sewer Fund	\$ 292,700
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Note 6 - Interfund Receivables, Payables, and Transfers

The Village had the following interfund receivables or payables at June 30, 2003:

Interfund Balances

Receivable Fund	Payable Fund	Amount
Water and Sewer Fund	Major Streets Fund	\$ 5,000
Water and Sewer Fund	Local Streets Fund	<u>7,000</u>
Total		<u>\$ 12,000</u>

Interfund Transfers

	Transfers Out			Total
	General Fund	Other Governmental Funds	Business-type Activities	
Transfers in:				
Local Streets Fund	\$ 200,000	\$ -	\$ -	\$ 200,000
Other governmental funds	<u>90,752</u>	<u>55,200</u>	<u>9,000</u>	<u>154,952</u>
Total	<u>\$ 290,752</u>	<u>\$ 55,200</u>	<u>\$ 9,000</u>	<u>\$ 354,952</u>

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2003

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

General Fund transfers were used for infrastructure and other capital improvements. Transfers from other governmental funds were used for park improvements. Transfer to other governmental funds was used to reimburse the Capital Projects Fund for improvements related to business-type assets.

Note 7 - Long-term Debt

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. County contractual agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Village is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

The Village's special assessment limited tax bonds issued in February 2003 call for any prepayments of special assessments to be accumulated and applied each October to the pay down the bond principal. This mechanism is intended to save the Village interest expense on these bonds, which is at a higher rate than the Village is likely to earn on the investment of these prepayments.

Long-term obligation activity can be summarized as follows:

	Beginning Balance July 1, 2002	Additions	Ending Balance June 30, 2003	Due Within One Year
Governmental activities:				
2003 Special Assessment Limited Tax Bonds maturing through October 2012 with interest at 5%	\$ -	\$ 500,000	\$ 500,000	\$ 205,000
Accumulated employee compensation	303,904	33,318	337,222	166,560
Total governmental activities	<u>\$ 303,904</u>	<u>\$ 533,318</u>	<u>\$ 837,222</u>	<u>\$ 371,560</u>

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2003

Note 7 - Long-term Debt (Continued)

	Beginning Balance July 1, 2002	Additions	Ending Balance June 30, 2003	Due Within One Year
Business-type activities:				
1990 Evergreen/Farmington Sewage System Bonds, maturing through October 2009 with interest at 7.00%	\$ 538,291	\$ (54,670)	\$ 483,621	\$ 53,268
1991 Evergreen/Farmington Permanent Meter and Interceptor Rehab Bonds, maturing through April 2010 with interest at 2.628%	63,592	(7,096)	56,496	6,964
1997 John Garfield Drain Bonds, maturing through November 2017 with interest ranging from 3.87% to 4.97%	87,641	(3,411)	84,230	3,673
1998 North Arm Relief Drain Contract with City of Royal Oak (to support the Village's portion of Royal Oak bonds), maturing through September 2020 with interest at 2.25%	447,060	(79,917)	367,143	49,076
2000 George W. Kuhn Drain Bond Series A, maturing through April 2022 with interest at 2.5%	145,224	(5,686)	139,538	5,807
2000 George W. Kuhn Drain Bond Series B, maturing through April 2022 with interest ranging from 4.750% to 5.375%	53,363	(2,740)	50,623	1,624
2001 George W. Kuhn Drain Bond Series C, maturing through April 2024 with interest at 2.5%	667,640	-	667,640	-
2001 George W. Kuhn Drain Bond Series D, maturing through April 2024 with interest at 2.5%	25,747	-	25,747	-
2001 George W. Kuhn Drain Bond Series E, maturing through April 2024 with interest ranging from 4% to 5.25%	80,166	-	80,166	-
1994 CSO Drain Bonds - Series 1994A, maturing through October 2015 with interest at 2.0%	777,872	(51,120)	726,752	54,528
1994 CSO Drain Bonds - Series 1994B, maturing through October 2015 with interest ranging from 4% to 6%	477,120	(17,040)	460,080	17,040
1995 CSO Drain Bonds - Series 1995C, maturing through October 2015 with interest ranging from 5.375% to 8.0%	2,436,720	(119,280)	2,317,440	119,280
1999 CSO Drain Bonds - Series 1999, maturing through October 2015 with interest ranging from 3.5% to 4.6%	460,080	(34,080)	426,000	34,080
Subtotal business-type activities	<u>\$ 6,260,516</u>	<u>\$ (375,040)</u>	5,885,476	345,340
Less deferred charge on refunding of bonds*			<u>(19,512)</u>	<u>(2,278)</u>
Total business-type activities			<u>\$ 5,865,964</u>	<u>\$ 343,062</u>

* During 2001, Oakland County refinanced the 1990 Evergreen/Farmington bond issue. With the refinancing, Oakland County included bond issuance costs in the new principal amount. The Village of Beverly Hills has an agreement with Oakland County to pay a portion of these bonds. The deferred charge referred to above represents the Village's portion of these costs, net of amortized expenses of \$5,576 at June 30, 2003.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2003

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above obligations (excluding employee benefits) are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 205,000	\$ 22,228	\$ 227,228	\$ 345,340	\$ 253,224	\$ 598,564
2005	55,000	13,375	68,375	359,202	228,046	587,248
2006	55,000	10,625	65,625	397,330	212,617	609,947
2007	55,000	7,875	62,875	411,015	195,655	606,670
2008	55,000	5,125	60,125	446,974	177,202	624,176
2009-2013	75,000	3,125	78,125	2,279,781	580,671	2,860,452
2014-2018	-	-	-	1,254,135	129,757	1,383,892
2019-2023	-	-	-	342,290	32,986	375,276
2024-2028	-	-	-	49,409	1,393	50,802
Total	<u>\$ 500,000</u>	<u>\$ 62,353</u>	<u>\$ 562,353</u>	<u>\$ 5,885,476</u>	<u>\$ 1,811,551</u>	<u>\$ 7,697,027</u>

Note 8 - Restricted Assets

Restricted assets at June 30, 2003 consisted of the following:

	Governmental Activities
Unspent bond proceeds and related interest	<u>\$ 258,937</u>

Note 9 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for medical claims and participates in the Michigan Municipal League Workers' Compensation for claims relating to workers' compensation and the Michigan Municipal Risk Management Authority for general liability claims.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2003

Note 9 - Risk Management (Continued)

The Michigan Municipal Risk Management Authority (the "Authority") operates as a claims-servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Village. The Authority assists the Village in estimating claims for additional liabilities that may be paid beyond the balance sheet date. It is estimated that any such claims are insignificant for each of the last two years. Therefore, no liability has been recorded.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

Note 10 - Other Postemployment Benefits

The Village provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, there are approximately 24 retirees receiving benefits. All activity related to the funding of these benefits is recorded in the Retiree Health Care Fund. Expenses are accrued based on the actuary valuation. Current year expenditures were approximately \$270,000.

Note 11 - Pension Plans

Public Safety Officers' Retirement System

Plan Description - The Village of Beverly Hills Public Safety Officers' Retirement System (the "Plan") is a single-employer defined benefit pension plan that is administered by a Board of Trustees consisting of the Village president, a Village council member, a citizen, and two public safety officers. The Plan covers all full-time public safety employees of the Village. The Plan provides retirement, disability, and death benefits to Plan members and their beneficiaries. At December 31, 2002, the date of the most recent actuarial valuation, membership consisted of 20 retirees and beneficiaries currently receiving benefits, terminated employees entitled to benefits but not yet receiving them, and 26 current active employees. The Plan does not issue a separate financial report.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2003

Note 11 - Pension Plans (Continued)

Contributions - As of July 1, 1976, the Plan was amended to make it a non-contributory plan by eliminating required employee contributions. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the Plan for these employees was established by negotiation with the Village's competitive bargaining units. The funding policy provides for periodic employer contributions at actuarially determined rates.

Annual Pension Cost - For the year ended June 30, 2003, the Village made no contribution to the Plan, in accordance with the December 31, 2001 actuarial valuation using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return, (b) projected salary increases of 4.0 percent to 8.0 percent per year, and (c) no cost-of-living adjustments. Both (a) and (b) include an inflation component of 4.0 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 26 years.

Three-year Trend Information

	Fiscal Year Ended December 31		
	2001	2002	2003
Annual pension costs (APC)	\$ 63,580	\$ 57,105	\$ 48,633
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

MMERS Retirement System

Plan Description - The Village participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers the administrative staff except for the Village manager. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2003

Note 11 - Pension Plans (Continued)

Funding Policy - The obligation to contribute to and maintain the MMERS for these employees was established by negotiation with the Village's competitive bargaining units and does not require a contribution from the employees.

Annual Pension Cost - For the year ended June 30, 2003, the Village's annual pension cost of approximately \$82,000 for the MMERS was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2000, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.66 percent per year, and (c) no cost-of-living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year Trend Information

	Fiscal Year Ended December 31		
	2001	2002	2003
Annual pension costs (APC)	\$ 63,580	\$ 57,105	\$ 48,633
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

	Actuarial Valuation as of December 31		
	2000	2001	2002
Actuarial value of assets	\$ 1,576,697	\$ 1,698,368	\$ 1,774,331
Actuarial accrued liability (AAL) (entry age)	\$ 1,487,874	\$ 1,700,038	\$ 1,842,653
Unfunded AAL (UAAL)	\$ (88,822)	\$ 1,670	\$ 68,322
Funded ratio	106%	100%	96%
Covered payroll	\$ 546,434	\$ 600,052	\$ 619,556
UAAL as a percentage of covered payroll	(16%)	- %	11%

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2003

Note 12 - Joint Ventures

Birmingham Area Cablecasting Board

The Village is a member of the Birmingham Area Cablecasting Board (BACB), which provides cable program-coordinating services to the residents of Birmingham, Beverly Hills, and Franklin Village. The Village's equity interest in the joint venture is insignificant. The Village is unaware of any circumstances that would cause an additional financial benefit or burden to the participating governments in the near future. Complete financial statements for the BACB can be obtained from the administrative offices at P.O. Box 165, Birmingham, MI 48012.

Southeastern Oakland County Water Authority

The Village is a member of the Southeastern Oakland County Water Authority (the "Water Authority"), which provides a water supply system serving 11 member municipalities in Oakland County. The Village appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2003, the Village expensed \$521,417 of payments made to the Water Authority. The Village has no explicit and measurable equity interest in the joint venture. The Southeastern Oakland County Water Authority's operations are financially independent of the Village. The Village is unaware of any circumstances that would cause an additional financial benefit or burden to the participating governments in the near future. The Southeastern Oakland County Water Authority has two debt issues, with a total balance outstanding as of June 30, 2003 of \$7,200,000, of which the Village has guaranteed approximately \$330,000. Complete financial statements for the Southeastern Oakland County Water Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, MI 48073.

Note 13 - Accounting Change

Effective July 1, 2002, the Village implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34), along with all related statements and interpretations. Changes to the Village's financial statements as a result of GASB 34 are as follows:

- A management's discussion and analysis (MD&A) section providing analysis of the Village's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Village's activities have been provided.
- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets (roads, bridges, etc.) not previously accounted for by the Village, as well as assets totaling \$4,668,784 previously reported in the General Fixed Assets Account Group. In addition, the governmental activities column includes long-term obligations totaling \$303,904 previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.
- The governmental funds now accrue a liability for compensated absences only to the extent that they come due for payment prior to year end.

In addition to the changes noted above, several of the Village's funds were consolidated and reclassified as of July 1, 2002. The Village's CSO Debt Service Fund was consolidated with the Water and Sewer Fund and the Planning and Engineering Fund was consolidated with the Local Streets Fund. As a result, the beginning net assets of the governmental funds were reduced by \$23,992 and the beginning retained earnings of the Enterprise Fund were increased by the same amount.

Required Supplemental Information

Village of Beverly Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
Revenues:				
Tax collection, State revenue, etc.	\$ 5,873,674	\$ 5,873,675	\$ 5,921,347	\$ 47,672
Fund balance appropriated	250,000	282,000	-	-
Total revenues	6,123,674	6,155,675	5,921,347	47,672
Expenditures:				
Village council	53,205	53,205	47,151	6,054
Manager	259,220	264,220	264,026	194
Finance director	212,570	212,570	210,965	1,605
Buildings and grounds	40,446	44,446	38,023	6,423
General government	179,725	241,725	239,499	2,226
Public safety:				
Police and fire	3,204,791	3,239,791	3,210,673	29,118
School liaison office	91,609	91,609	88,541	3,068
Building and planning	214,363	234,362	221,417	12,945
Public services	795,509	825,641	825,473	168
Community action programs	77,122	77,122	74,866	2,256
Library	472,734	472,734	465,156	7,578
Capital purchases	150,200	107,200	76,585	30,615
Transfers out	372,180	291,050	290,752	298
Total charges to appropriations	\$ 6,123,674	\$ 6,155,675	\$ 6,053,127	\$ 102,548
Fund Balance - Beginning of year	\$ 1,661,098	\$ 1,735,130	\$ 1,735,130	\$ -
Fund balance appropriated/shortage	(250,000)	(282,000)	(131,780)	150,220
Fund Balance - End of year	\$ 1,411,098	\$ 1,453,130	\$ 1,603,350	\$ 150,220

Village of Beverly Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
Revenues	\$ 440,947	\$ 440,947	\$ 428,170	\$ (12,777)
Fund balance appropriated	<u>278,231</u>	<u>321,231</u>	<u>-</u>	<u>-</u>
Total revenues and fund balance	719,178	762,178	428,170	(12,777)
Expenditures	<u>\$ 719,178</u>	<u>\$ 762,178</u>	<u>\$ 423,413</u>	<u>\$ 338,765</u>
Fund Balance - Beginning of year	\$ 612,072	\$ 561,162	\$ 561,162	\$ -
Fund balance appropriated/surplus	<u>(278,231)</u>	<u>(321,231)</u>	<u>4,757</u>	<u>325,988</u>
Fund Balance - End of year	<u>\$ 333,841</u>	<u>\$ 239,931</u>	<u>\$ 565,919</u>	<u>\$ 325,988</u>

Village of Beverly Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Local Streets Fund Year Ended June 30, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
Revenues	\$ 916,473	\$ 916,473	\$ 893,641	\$ (22,832)
Fund balance appropriated	<u>108,891</u>	<u>266,891</u>	<u>-</u>	<u>-</u>
Total revenues	1,025,364	1,183,364	893,641	(22,832)
Expenditures	<u>\$ 1,025,364</u>	<u>\$ 1,183,364</u>	<u>\$ 829,845</u>	<u>\$ 353,519</u>
Fund Balance - Beginning of year	\$ 595,527	\$ 703,001	\$ 703,001	\$ -
Fund balance appropriated/surplus	<u>(108,891)</u>	<u>(266,891)</u>	<u>63,796</u>	<u>330,687</u>
Fund Balance - End of year	<u>\$ 486,636</u>	<u>\$ 436,110</u>	<u>\$ 766,797</u>	<u>\$ 330,687</u>

Village of Beverly Hills, Michigan

Required Supplemental Information Schedule of Funding Progress Public Safety Officers' Retirement System (dollar amounts in thousands)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/97	\$ 11,600	\$ 8,700	\$ (2,900)	133	\$ 1,400	-
12/31/98	12,700	9,200	(3,500)	138	1,400	-
12/31/99	14,100	9,700	(4,400)	145	1,400	-
12/31/00	15,000	10,200	(4,800)	147	1,400	-
12/31/01	15,600	10,900	(4,700)	143	1,500	-
12/31/02	13,900	11,700	(2,200)	119	1,600	-

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
06/30/97	12/31/95	\$ 105,125	100.0
06/30/98	12/31/96	39,430	100.0
06/30/99	12/31/97	-	-
06/30/00	12/31/98	-	-
06/30/01	12/31/99	-	-
06/30/02	12/31/00	-	-

* The required contribution is expressed to the Village as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2002, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	10 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7%
Projected salary increases*	4% - 8%
*Includes inflation at	4.0%
Cost of living adjustments	None

Other Supplemental Information

Village of Beverly Hills, Michigan

	Special Revenue Funds			
	Drug Forfeiture	Sick Pay Severance	Vacation Reserve Fund	Retiree Health Care
Assets				
Cash and investments	\$ 7,198	\$ 161,523	\$ 178,454	\$ 843,328
Receivables - Net	-	-	-	-
Total assets	<u>\$ 7,198</u>	<u>\$ 161,523</u>	<u>\$ 178,454</u>	<u>\$ 843,328</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	-
Total liabilities	-	-	-	-
Fund Balances				
Reserved	-	-	-	-
Unreserved	<u>7,198</u>	<u>161,523</u>	<u>178,454</u>	<u>843,328</u>
Total fund balances	<u>7,198</u>	<u>161,523</u>	<u>178,454</u>	<u>843,328</u>
Total liabilities and fund balances	<u>\$ 7,198</u>	<u>\$ 161,523</u>	<u>\$ 178,454</u>	<u>\$ 843,328</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003**

<u>Capital Projects Funds</u>		
Capital Projects Fund	Special Park Millage	Total Nonmajor Governmental Funds
\$ 313,500	\$ 58,102	\$ 1,562,105
<u>19,900</u>	<u>-</u>	<u>19,900</u>
<u>\$ 333,400</u>	<u>\$ 58,102</u>	<u>\$ 1,582,005</u>
\$ 4,119	\$ -	\$ 4,119
<u>19,900</u>	<u>-</u>	<u>19,900</u>
24,019	-	24,019
309,381	58,102	367,483
<u>-</u>	<u>-</u>	<u>1,190,503</u>
309,381	58,102	1,557,986
<u>\$ 333,400</u>	<u>\$ 58,102</u>	<u>\$ 1,582,005</u>

Village of Beverly Hills, Michigan

	Special Revenue Funds			
	Drug Forfeiture	Sick Pay Severance	Vacation Reserve Fund	Retiree Health Care
Revenue				
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -
Property taxes	-	-	-	-
Interest income	62	1,341	1,414	10,890
Charges to other funds	-	12,090	23,476	311,512
Fines and forfeitures	2,954	-	-	-
Other	-	-	-	-
Total revenue	3,016	13,431	24,890	322,402
Expenditures				
Current:				
Administrative	-	-	2,249	-
Health care	-	-	-	270,392
Capital outlay	-	-	-	-
Total expenditures	-	-	2,249	270,392
Excess of Revenue Over (Under) Expenditures	3,016	13,431	22,641	52,010
Other Financing Sources - Transfers in	-	-	-	-
Net Change in Fund Balances	3,016	13,431	22,641	52,010
Fund Balances - Beginning of year	4,182	148,092	155,813	791,318
Fund Balances - End of year	<u>\$ 7,198</u>	<u>\$ 161,523</u>	<u>\$ 178,454</u>	<u>\$ 843,328</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2003

<u>Capital Projects Funds</u>		Total Nonmajor Governmental Funds
<u>Capital Projects Fund</u>	<u>Special Park Millage</u>	
\$ 179,100	\$ -	\$ 179,100
-	114,095	114,095
3,053	469	17,229
-	-	347,078
-	-	2,954
<u>100,740</u>	<u>41,092</u>	<u>141,832</u>
282,893	155,656	802,288
-	-	2,249
-	-	270,392
<u>97,787</u>	<u>161,527</u>	<u>259,314</u>
<u>97,787</u>	<u>161,527</u>	<u>531,955</u>
185,106	(5,871)	270,333
<u>44,552</u>	<u>55,200</u>	<u>99,752</u>
229,658	49,329	370,085
<u>79,723</u>	<u>8,773</u>	<u>1,187,901</u>
<u><u>\$ 309,381</u></u>	<u><u>\$ 58,102</u></u>	<u><u>\$ 1,557,986</u></u>

September 19, 2003

Members of the Village Council
Village of Beverly Hills
18500 W. 13 Mile Road
Beverly Hills, MI 48025

Dear Council Members:

We recently completed the audit of the financial statements of the Village of Beverly Hills, Michigan for the year ended June 30, 2003. In addition to the audit report, we offer the following comments for your consideration:

New Financial Statement Format

You will notice a very different look to the financial statements this year. While getting used to the new format may take a while, we hope that the Management's Discussion and Analysis section (pages 3-8) is helpful in providing you with a quick overview of the Village's finances. Preparing for this new reporting model has meant a significant amount of work for the Village's finance department. The Village staff has done an excellent job of preparing the necessary schedules as well as assisting and cooperating with the audit work being done on those schedules.

Although there are many differences with this new reporting model, the major additions are as follows:

- *Management Discussion and Analysis:* Management is now required to give an overview of the Village's overall financial position and results of operations.
- *Government-wide Financial Statements:* These additional statements adjust the normal fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the Village from a longer term perspective (i.e. are today's taxpayers paying the full cost of today's services?). These statements show capital and infrastructure assets, as well as long term debt as part of the Village's financial picture.
- *Budget Comparison:* A financial statement reader will now be able to view not only the actual revenue and expenditures of the Village as compared to the current budget, but also as compared to the original budget.

We would be happy to discuss any questions you may have about the new statements and how to best interpret the information provided.

State Shared Revenue

The Village has and will continue to feel the effects of the slowdown in the State's economy. State shared revenue accounts for approximately 16% of the Village's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax, revenue sharing payments continue to decline. Currently, the approved budget for the State's 2003/2004 fiscal year includes another reduction to state shared revenue of 3% from fiscal year 2002/2003 levels.

The State's 2003/2004 budget is contingent on significant assumptions and legislative actions which may or may not be realized. Also, by all accounts, the State has longer term structural problems with its budget that have not been solved yet. If the State's economy rebounds strongly next year and sales tax collections rise significantly, local units could see an improvement in state shared revenue in the 2005 fiscal year. Absent this, the State is likely to continue to experience budget struggles. For planning purposes, we recommend that you budget no growth in State Shared Revenue payments, and do not rule out additional future cuts.

The State held a revenue estimating conference on October 14, 2003, where it was announced that the projected shortfall for 03/04 was \$900 million. This information could lead to significant further reductions in the statutory portion of revenue sharing allocated to local units of government. We recommend that the Village continue to carefully monitor its 2003/2004 fiscal year budget in light of these developments. We will continue to update the Village as developments occur.

Federal Aid From August 2003 Blackout

The State has requested aid from the Federal Government for costs incurred by the State and local governments as a result of the August 2003 blackout. Specifically, emergency monies were requested to reimburse Michigan governmental units for overtime for public safety and transportation workers and other out-of-pocket costs associated with the blackout. If you not already done so, we recommend that you identify your costs associated with the blackout in the event that the State is successful in receiving emergency funds from the Federal Government. It is expected that if emergency funds are received by the State, local units will be allowed to submit claims for consideration.

Telecommunications Act Revenue

Local units of government had until May 9, 2003 to notify the State that they were "opting in" to new Telecommunications Act. The Village "opted in" and received the first payment from the METRO Authority this summer. All local units recognized by the METRO Authority as having "opted in" are listed on their website (www.michigan.gov/metro). The first payment was for a partial year and at a prorated rate. The second and future payments should be much larger as they will be based on a full year and at the standard rate. Checks for the second payment will be distributed in the Spring of 2004.

ACH Arrangements

Recently, Public Act 738 was passed, which allows local units of government to make and accept electronic funds transfers (ACH payments), if the local unit adopts a formal policy. While local units of government may have already been using the ACH system for payroll tax remittances and for the direct deposit of payroll, this new law requires a policy to be adopted. The Council should consider adopting a resolution authorizing both the use of electronic transactions and the policy prepared by the Village treasurer on ACH arrangements that includes all of the following:

- Designation of an individual as the party responsible for payment approval, accounting, reporting and compliance with the ACH policy;
- A statement that this individual is required to submit documentation as follows:
 - describe the goods or services purchased,
 - the cost,
 - date of payment, and
 - the department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and
- The approval of ACH invoices before payment.

State To Fund Personal Property Tax Audits

The State's fiscal year 2003/2004 General Government budget approved by the Legislature and the Governor contains an additional appropriation (\$7 million) for personal property tax audits. The Michigan Department of Treasury is responsible for developing the guidelines of the program.

New Homestead Audit Program

Public Act. 105 of 2003 provides new authority for local units of government and the Michigan Department of Treasury to share homestead information to determine if a resident is illegally claiming an homestead exemption on property. As you recall, following the passage of Proposal A in 1994, individuals in Michigan are allowed only one homestead for property tax purposes. A residence which is not an individual's homestead pays property tax at the non-homestead rate. The Michigan Department of Treasury will publish additional guidance related to this new law.

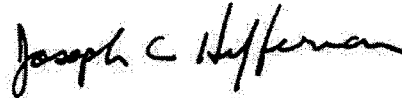
Fixed Asset Tracking

As mentioned above, the accounting of capital assets of the Village has become increasingly important with the changes resulting from GASB 34. We recommend the Village review its procedures for identifying and recording capital additions and deletions in both the governmental and business-type funds to ensure that when assets are constructed (including infrastructure) to replace assets currently recorded, the original cost and accumulated depreciation of the existing assets are appropriately relieved.

We would like to express our thanks and appreciation for the courtesy and cooperation extended to us by the Village staff during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

Yours truly,

PLANTE & MORAN, PLLC

A handwritten signature in black ink, reading "Joseph C. Heffernan". The signature is written in a cursive style with a large, stylized "J" and "H".

Joseph C. Heffernan, CPA

A handwritten signature in black ink, reading "Stacey L. Reeves". The signature is written in a cursive style with a large, stylized "S" and "R".

Stacey L. Reeves, CPA